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FISCAL IMPACT STATEMENT

LS 7053

BILL NUMBER: HB 1549

NOTE PREPARED: Jan 1, 2005

BILL AMENDED:

SUBJECT: Optional Restoration of Banked Levies.

FIRST AUTHOR: Rep. Ayres

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: This bill increases the maximum permissible levy for property taxes payable in 2006 to a taxing unit, other than a school corporation, by the product of the amount of unused levy authority that the taxing unit accumulated before the enactment of P.L.1-2004 (SEA 1) and P.L.23-2004 (HEA 1001) multiplied by the assessed value growth quotient. The bill allows only the part of the additional levy authority that is used in 2006 to be considered in setting maximum permissible levies in subsequent years.

Effective Date: Upon passage.

Explanation of State Expenditures: The state pays a 20% Property Tax Replacement Credit (PTRC) on the amount of levy that is within a civil unit's maximum levy limit that is attributable to property other than business personal property. Likewise, the state pays a 20% Homestead Credit on the net tax due (after PTRC) of levies that are within the limit and attributable to homesteads.

If all affected units utilize the entire maximum levy increase that would be allowed under this proposal, state expenditures for PTRC and Homestead Credit could increase by as much as \$28 M in FY 2006 (partial year), \$85 M in FY 2007, and \$88 M in FY 2008. The actual change in state expenditures could be less than these estimates depending on the actual amount of property tax levies imposed locally.

PTRC and Homestead Credits are paid from the Property Tax Replacement Fund (PTRF). These credits are paid from the state General Fund if balances are not available in the PTRF.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: Beginning with taxes paid in 2004, maximum permissible levies are calculated by multiplying the previous year's actual controlled levy by the six-year average increase in Indiana nonfarm personal income. The annual increase is limited to 6%, although a taxing unit may appeal to the state's Local Government Property Tax Control Board for a larger increase in the maximum levy if the unit's AV growth is 3% greater than the statewide average growth in AV.

Prior to the passage of SEA 1 (2004) and HEA 1001 (2004), the income factor was applied to the previous year's maximum levy rather than the actual levy. The change in 2004 eliminated "banking" of unused levy authority for future use.

Under this proposal, a civil taxing unit would be permitted to petition the Department of Local Government Finance (DLGF) to calculate and restore, in 2006, the lost maximum levy amount, if any, from the unit maximum levy or a township fire fighting maximum levy. Any lost maximum levy amount in the county family and children's fund would be automatically restored. The restoration would not apply to school transportation funds. After 2006, the maximum levy calculation would once again be based on the previous year's actual levy.

Assuming that each taxing unit fully utilizes its 2005 maximum levy under current law, the total 2006 maximum levy authority for civil units, township firefighting, and the family and children fund is estimated at \$3,001 M. This bill would increase those maximum levies for 2006 by about \$360 M. Increases were estimated in 82 of 92 family and children's funds, 612 of 915 township firefighting funds, and 1,336 of 2,125 unit-level maximum levies.

Each local affected taxing unit would decide whether or not to increase its levy to use all or part of the increase in the limit. The increase would remain a part of the maximum levy base as long as the taxing unit levies that amount. However, if at any time, including 2006, a taxing unit does not use all of its levy authority, the unused amount will be lost from the base.

Under this proposal, if all maximum levies were fully utilized each year, gross property tax levies would increase by an estimated \$360 M in CY 2006, \$374 M in CY 2007, and \$388 M in CY 2008. Net levies, after PTRC and Homestead Credits are paid would increase by an estimated \$276 M in CY 2006, \$287 M in CY 2007, and \$298 M in CY 2008. The actual increase in levies could, however, be less than these estimates and would be subject to local levy decisions.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: Local civil taxing units.

Information Sources: Local Government Database.

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